

**FEDERAL FINANCIAL INSTITUTIONS
EXAMINATION COUNCIL**

***FINANCIAL STATEMENTS AND
FINANCIAL AUDIT REPORTS***

**as of and for the years ended
December 31, 1997 and 1996**

Price Waterhouse LLP





FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

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Price Waterhouse LLP



REPORT OF INDEPENDENT ACCOUNTANTS

To the Federal Financial Institutions
Examination Council

We have audited the accompanying balance sheets of the Federal Financial Institutions Examination Council (the Council) as of December 31, 1997 and 1996, and the related statements of revenues and expenses and fund balance and of cash flows for the years then ended. These financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Council as of December 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 1998 on our consideration of the Council's internal control over financial reporting and our tests of its compliance with provisions of laws and regulations.

Price Waterhouse LLP

March 6, 1998
Arlington, Virginia

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

BALANCE SHEET

	<u>As of December 31,</u>	
	<u>1997</u>	<u>1996</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 486,595	\$ 821,043
Accounts receivable from member organizations	689,363	540,205
Other accounts receivable	183,882	255,113
Prepaid expenses	<u>-0-</u>	<u>222</u>
Total current assets	<u>1,359,840</u>	<u>1,616,583</u>
FURNITURE AND EQUIPMENT		
Furniture and equipment, at cost	257,091	251,088
Less accumulated depreciation	<u>215,271</u>	<u>191,775</u>
Net furniture and equipment	<u>41,820</u>	<u>59,313</u>
LEASEHOLD IMPROVEMENTS, net of amortization	<u>9,907</u>	<u>26,322</u>
Total assets	<u>\$1,411,567</u>	<u>\$1,702,218</u>
LIABILITIES AND FUND BALANCE		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities to member organizations	\$ 839,757	\$1,006,789
Other accounts payable and accrued liabilities	112,848	90,700
Accrued annual leave	<u>59,019</u>	<u>48,058</u>
Total current liabilities	<u>1,011,624</u>	<u>1,145,547</u>
DEFERRED RENT (Note 5)	<u>49,042</u>	<u>98,083</u>
FUND BALANCE	<u>350,901</u>	<u>458,588</u>
Total liabilities and fund balance	<u>\$1,411,567</u>	<u>\$1,702,218</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENT OF REVENUES AND EXPENSES
AND FUND BALANCE

	For the	
	<u>Years Ended December 31.</u>	
	<u>1997</u>	<u>1996</u>
REVENUES		
Assessments to member organizations	\$1,141,000	\$1,123,000
Tuition	1,501,494	1,462,130
Other revenue (Note 4)	<u>2,707,759</u>	<u>2,734,752</u>
Total revenues	<u>5,350,253</u>	<u>5,319,882</u>
EXPENSES		
Salaries and related benefits	1,408,595	1,403,434
Data processing	2,694,856	2,779,681
Rental of office space	640,281	628,583
Travel	112,758	148,816
Professional fees	98,277	131,336
Printing	102,798	170,467
Rental and maintenance of office equipment	123,999	43,139
Office and other supplies	32,904	40,955
Administrative fees	53,236	51,200
Depreciation	39,911	40,065
Postage	21,994	36,705
Telephone	12,776	14,805
Books and subscriptions	14,779	10,012
Miscellaneous	<u>100,776</u>	<u>82,374</u>
Total expenses	<u>5,457,940</u>	<u>5,581,572</u>
REVENUES OVER (UNDER) EXPENSES	(107,687)	(261,690)
FUND BALANCE, Beginning of year	<u>458,588</u>	<u>720,278</u>
FUND BALANCE, End of year	<u>\$ 350,901</u>	<u>\$ 458,588</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

STATEMENT OF CASH FLOWS

INCREASE (DECREASE) IN CASH

	For the	
	<u>Years Ended December 31,</u>	
	<u>1997</u>	<u>1996</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Revenues over (under) expenses	\$ (107,687)	\$(261,690)
Adjustments to reconcile revenues over (under) expenses to net cash provided (used) by operating activities:		
Depreciation	39,911	40,065
Increase in accounts receivable	(77,927)	(71,384)
Decrease in prepaid expense	222	13,465
Increase in accounts payable and accrued liabilities	(144,884)	150,811
Increase in accrued annual leave	10,961	15
Decrease in deferred rent	<u>(49,041)</u>	<u>(39,277)</u>
Net cash provided (used) by operating activities	<u>(328,445)</u>	<u>(167,995)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	<u>(6,003)</u>	<u>(2,643)</u>
Net cash used in investing activities	<u>(6,003)</u>	<u>(2,643)</u>
NET INCREASE (DECREASE) IN CASH	(334,448)	(170,638)
CASH BALANCE, Beginning of year	<u>821,043</u>	<u>991,681</u>
CASH BALANCE, End of year	<u>\$ 486,595</u>	<u>\$ 821,043</u>

The accompanying notes are an integral part of these statements.

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

NOTES TO FINANCIAL STATEMENTS

(1) ORGANIZATION AND PURPOSE

The Federal Financial Institutions Examination Council (the "Council") was established under title X of the Financial Institutions Regulatory and Interest Rate Control Act of 1978. The purpose of the Council is to prescribe uniform principles and standards for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of these financial institutions. The five agencies which are represented on the Council, referred to hereafter as member organizations, are as follows:

Board of Governors of the Federal Reserve System

Federal Deposit Insurance Corporation

National Credit Union Administration

Office of the Comptroller of the Currency

Office of Thrift Supervision

The Appraisal Subcommittee of the Council was created pursuant to Public Law 101-73, title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. The functions of the Appraisal Subcommittee are related to the certification and licensing of individuals who perform appraisals in connection with federally related real estate transactions. Members of the Appraisal Subcommittee consist of the designees of the heads of those agencies which comprise the Council and the designee of the head of the Department of Housing and Urban Development. Although it is a subcommittee of the Council, the Appraisal Subcommittee maintains separate financial records and administrative processes. The Council's financial statements do not include financial data for the Appraisal Subcommittee other than that presented in note 4.

(2) SIGNIFICANT ACCOUNTING POLICIES

Revenues and Expenses--Assessments made on member organizations for operating expenses and additions to property are calculated based on expected cash needs. Assessments, other revenues, and operating expenses are recorded on the accrual basis of accounting.

Furniture and Equipment--Furniture and equipment is recorded at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, which range from four to ten years. Upon the sale or other disposition of a depreciable asset, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized.

Leasehold Improvements--Leasehold improvements are amortized on a

FEDERAL FINANCIAL INSTITUTIONS EXAMINATION COUNCIL

NOTES TO FINANCIAL STATEMENTS

straight-line basis over the shorter of the term of the related lease or the estimated useful life of the improvements.

(3) TRANSACTIONS WITH MEMBER ORGANIZATIONS

The five member organizations are each assessed one-fifth of the expected cash needs based on the annual operating budget. Each member organization was assessed \$228,200 in 1997 and \$224,600 in 1996.

The Council provides seminars in the Washington area and at regional locations throughout the country for member agency examiners and others. The Council received tuition payments from member agencies of \$1,501,494 in 1997 and \$1,462,130 in 1996.

The Board of Governors of the Federal Reserve System provided administrative support services to the Council at a cost of \$53,236 for 1997 and \$51,200 for 1996.

Member organizations provide office space, data processing and printing services to the Council. The Council paid member organizations \$2,891,245 in 1997 and \$2,800,012 in 1996.

The Council coordinates the production and distribution of the Uniform Bank Performance Reports (UBPR) through the Federal Deposit Insurance Corporation (FDIC). The Council is reimbursed for the direct cost of the operating expenses it incurs for this project.

Council employees are paid through the payroll systems of member organizations. Salaries and fringe benefits, including retirement benefit plan contributions, disbursed on behalf of the Council are reimbursed in full to these organizations. The Council does not have any postretirement or postemployment benefit liabilities due to the fact that Council employees are included in the plans of the member organizations.

Member organizations are not reimbursed for the costs of personnel who serve as Council members and on the various task forces and committees of the Council. The value of these contributed services has not been included in the accompanying financial statements.

(4) OTHER REVENUE

	<u>1997</u>	<u>1996</u>
Home Mortgage Disclosure Act	\$1,154,060	\$1,233,979
Uniform Bank Performance Report	253,494	258,226
Appraisal Subcommittee	161,952	175,342
Mortgage Insurance Companies of America	169,661	138,418
Rental	157,751	127,104
Community Reinvestment Act	719,427	720,795
Sale of HMDA Data	54,649	78,363
Miscellaneous	<u>36,765</u>	<u>2,525</u>
	<u>\$2,707,759</u>	<u>\$2,734,752</u>

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NOTES TO FINANCIAL STATEMENTS

The Council produces and distributes reports under the Home Mortgage Disclosure Act (HMDA). The Council received \$248,054 in 1997 and 259,469 in 1996 from the Department of Housing and Urban Development (HUD) to fund HUD's participation in the HMDA project. The Council received \$169,661 in 1997 and \$138,418 in 1996 from the Mortgage Insurance Companies of America for performing HMDA related work for them. The balance of the HMDA revenue for 1997 and 1996 was received from the member agencies.

The Council coordinated and provided certain administrative support to the UBPR project. The Council received \$253,494 in 1997 and \$258,226 in 1996 for operating expenses incurred in support of the UBPR project.

The Council provided space and certain administrative support to the Appraisal Subcommittee. The Council received \$161,952 in 1997 and \$175,342 in 1996 from the Appraisal Subcommittee for these services.

The Council provided space to the Board of Governors of the Federal Reserve System (Board). The Council received \$157,751 in 1997 and \$127,104 in 1996 in rent from the Board.

In 1995, development work began to prepare an information system to assist financial institutions with certain Community Reinvestment Act (CRA) requirements. The first full year of operations was 1996. The Council received \$719,427 in 1997 and \$720,795 in 1996 from participating member agencies for operating expenses incurred in support of the CRA project.

(5) DEFERRED RENT

During 1992 the Council entered into a lease for office space. This lease contains rent abatements and scheduled rent increases which, in accordance with generally accepted accounting principles, must be considered in determining the annual rent expense to be recognized by the Council. The deferred rent represents the difference between the actual lease payments and the rent expense recognized.

(6) COMMITMENTS

The Council has entered into operating leases to secure office and classroom space for periods ranging from two to six years. Minimum future rental commitments under those operating leases having an initial or remaining noncancelable lease term in excess of one year at December 31, 1997, are as follows:

1998

437,836

\$ 437,836

Rental expenses under these operating leases were \$610,275 and \$652,865 in 1997 and 1996, respectively.

Price Waterhouse LLP



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

To the Federal Financial Institutions
Examination Council

We have audited the financial statements of the Federal Financial Institutions Examination Council (the Council) as of and for the year ended December 31, 1997, and have issued our report thereon dated March 6, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Council's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. For purposes of this report, we have categorized the provisions of laws and regulations we tested as part of obtaining such reasonable assurance into the following categories:

- Personnel engagement, maintenance, and separation
- Procurement policies and procedures

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a

Report on Compliance and on Internal Control over
Financial Reporting
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condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Council. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse LLP

March 6, 1998
Arlington, Virginia